

TO: Joyce M. Grossnickle, Administrative Officer

FROM:

Tracy Lobuts, Deputy Director, Human Resources Div

DATE:

4/4/2011

Subject: Frederick County Employees Retirement Plan - International Equity Income Portfolio Investment Management

Presenter (Name & Title): Tracy Lobuts and Carol Boykin, CFA, Bolton Partners Investment Consulting Group, Inc.

Requested Date: 4/14/2011

4/28/2011

Phone: x11786

Type of Briefing: (Click box to select)



Administrative Business



Worksession



RECEIVED
Closed Session



BOCC/BOE Mtg.



County/Municipal Mtg.



APR 19 2011
Public Hearing

Board Action Desired:



Decision



Guidance



Information



PowerPoint Presentation

County Manager's Office

Staff Coordination: This topic has been **thoroughly** coordinated with the following Division/Department Directors, and they will have representatives at the presentation: (click to place a check mark in the appropriate box).

	Staff	Initials	Date	Comments
<input checked="" type="checkbox"/>	County Attorney	LBT	4/12/11	
<input checked="" type="checkbox"/>	County Manager	BS	4/15/11	
<input checked="" type="checkbox"/>	Finance Director	JKK	4/14/11	
<input checked="" type="checkbox"/>	Budget Officer	mjr	4/14/11	
	Fire & Rescue Services Dir.			
	Management Services Director			

	Staff	Initials	Date	Comments
	Permitting & Development Review Director			
	Planning Director			
	Public Works Director			
	Utilities and Solid Waste Management Director			
	Elected Officials			
	Independent Agencies			
	Other	Box Ser HGG	4/14	

Attachments:



Yes



No

PLEASE NOTE: The **original and 10 copies** of all attachments (including the coordination sheet) are required for the Board of County Commissioners' meetings, which includes the Joint BOCC/BOE Meeting and the County/Municipal Meeting.

If you are scheduled for a **Closed Session**, then you only need to submit the **original and nine (9) copies** of the back-up material. Back-up materials are due to the Administrative Officer **ONE WEEK IN ADVANCE** of the meeting. If materials are not received in a timely manner, you will be asked to reschedule your item.

Date

Signature

Date

Signature

Date

Signature

Date

Signature

Date

Signature

MEMORANDUM

TO: Board of County Commissioners

FROM: Tracy Lobuts, Chair, Frederick County Employees Retirement Plan Committee

DATE: April 8, 2011

SUBJECT: Frederick County Employees Retirement Plan: International Equity Portfolio - Investment Management Agreements with Harding Loevner Inc. and Euro Pacific Growth Fund

ISSUE: Should the Retirement Plan ("Plan") terminate the service agreement and replace its international equity active portfolio manager, Philadelphia International Advisors, LP? And should the Plan further diversify its international equity portfolio and add a core/blend style manager?

BACKGROUND: At the December 2010 meeting, the Retirement Committee ("Committee") took the action to identify a manager to replace Philadelphia International Advisors, LP and further diversify the international equity actively managed portion of the Plan's portfolio. In order to further diversify the Plan's international portfolio and to reduce its overall value bias in equities, the Committee decided to replace Philadelphia International Advisors with a manager/fund with a growth investment style and add a manager/fund with a core or blend investment style. This action to further diversify the international equity portion of the total portfolio is to mitigate risk and position the portfolio to potentially add investment earnings that will enable the Plan to better meet its actuarial assumptions, specifically the 7.50% investment return assumption.

Replacing Philadelphia International Advisors, LP:

The Committee instructed Bolton Partners Investment Consulting Group to conduct a search for an international equity growth manager. Potential candidates were identified by screenings the eVestment Alliance database on the basis of the criteria listed below.

- Investment Category = International
- Capitalization Focus = Large
- Style Focus = Growth
- Performance Track Record of 5 years or longer
- Total product assets greater than \$250 million
- Separate account open to new investments
- Returns compliant with Global Investment Performance Standards and independently audited

The database screening criteria yielded a total of twenty potential international growth products. The risk-adjusted performance of the twenty products was analyzed over 3 and 5-year periods ending September 2010. Eight products were identified as exhibiting solid risk/return profiles. One firm was excluded from further consideration due to current legal proceedings against the firm and its principal owner. The remaining seven firms were contacted to determine their interest in receiving a Request for Information ("RFI") and their compliance with the County's \$10 million Errors & Omissions insurance requirement. Only one firm did not carry the required level of coverage and indicated that it would be cost prohibitive for it to increase its coverage to the required level. The six remaining firms responded to the Plan's RFI. The responses were reviewed in detail by Bolton Partners. Two respondents were eliminated from further consideration due to the lack of institutional separate account clientele and strategy assets that were below an accept level (\$250 million). The review focused on four areas that are vital in the selection of an investment manager: people/organization, investment process, performance and fees. A ranking system, based on these four areas, was developed.

The Retirement Committee studied Bolton Partner's analysis of the six proposals. The Committee decided to conduct interviews with the three top rated managers and also requested a Best and Final Offer submission. The committee unanimously selected Harding Loevner Inc. to replace Philadelphia International Advisors based on high qualitative and quantitative analysis ratings, the interview results, and a competitive investment management fee.

Core/Blend Strategy International Equity Income Fund: The Committee also took action at the December 2010 meeting to add a "core/blend" international equity strategy to achieve additional diversification in the international equity asset class and to reduce its overall value bias in equities. Due to the "boutique" nature of international equity managers, the growth managers had lower minimum investment amounts than many of the larger, well-known international core/blend managers. Therefore, we investigated the possibility of investing in an institutional mutual fund for the core/blend allocation. The Committee directed Bolton Partners to screen the international equity database for a "blend" style fund. Several institutional mutual funds in the Morningstar database were identified, including Euro Pacific Growth Fund, which is part of the American Funds family of mutual funds. The American Funds are the mutual fund arm of Capital Guardian, which is known for its expertise in international investing. The Euro Pacific Growth Fund is managed by a team of long-tenured portfolio managers and has exhibited favorable risk/return characteristics over extended periods of time. In addition, its expense ratio of 52 basis points is among the lowest in its Morningstar category (Foreign Large Blend) for actively-managed funds. Finally, there is familiarity with the fund given that it is included in the County's Deferred Compensation Plan.

RECOMMENDATION: The Committee requests the approval to hire Harding Loevner Inc, an e international equity manager, to replace Philadelphia International Advisors, and to manage approximately \$14.5 million in a growth style strategy. The Committee further requests approval to hire the Euro Pacific Growth Fund to further diversify the equities portion of the Plan's portfolio by adding a "core/blend" strategy, with an initial investment of approximately \$14.5 million.

WHITEFORD, TAYLOR & PRESTON L.L.P.

SEVEN SAINT PAUL STREET
BALTIMORE, MARYLAND 21202-1636

MAIN TELEPHONE (410) 347-8700
FACSIMILE (410) 752-7092

MARY CLAIRE CHESHIRE
DIRECT LINE (410) 347-9465
DIRECT FAX (410) 234-2309
mcheshire@wtplaw.com

BALTIMORE, MD
COLUMBIA, MD
FALLS CHURCH, VA
TOWSON, MD
WASHINGTON, DC
WILMINGTON, DE*

WWW.WTPLAW.COM
(800) 987-8705

TO: Board of County Commissioners, Frederick County Maryland

FROM: Mary Claire Chesshire

DATE: April 6, 2011

RE: Frederick County Employees Retirement Plan: Documentation for
Establishment of Accounts

The Retirement Plan Committee (the "Committee") for the Frederick County Employees Retirement Plan (the "Plan") is recommending an investment of approximately \$14.5 million in the Harding Loevner International Equity Portfolio (an international growth strategy) to replace Philadelphia International Advisors and an investment of approximately \$14.5 million in the EuroPacific Growth Fund (an international core/blend strategy). The Committee is further recommending an investment of approximately \$30 million with Segall, Bryant & Hamill, an active core fixed income manager and an investment of approximately \$30 million in the PIMCO Total Return Fund, a "core plus" fixed income fund, both replacing Smith Breeden Associates as a fixed income manager for the Plan.

Because Segall, Bryant & Hamill is an active manager, its relationship with the Plan and Frederick County will be governed by an investment management agreement that sets forth, among other provisions, the negotiated management fees, the manager's investment strategy and benchmarks, and the key personnel assigned to the Plan's account. However, the investments in Harding Loevner International Equity Portfolio, the PIMCO Total Return Fund and the EuroPacific Growth Fund are mutual fund investments. The fees, manager's strategy and benchmarks and the fund's key personnel are governed by the fund's prospectuses and are not subject to negotiation with the Plan and Frederick County.

The custodian of the Plan's assets is M & T Bank. M & T Bank maintains "omnibus accounts" through which investments may be made for the Plan in the Harding Loevner, PIMCO and the EuroPacific Growth mutual funds. M & T Bank will, of course, maintain separate accounts in the name of the Plan with the mutual fund investments and provide monthly statements documenting all transactions. However, there are no separate agreements with the funds or account applications that must be completed by the County to implement the investments.

Memorandum to Frederick County Board of County Commissioners

April 6, 2011

Page 2

Accordingly, we are presenting only an Investment Management Agreement with Segall, Bryant & Hamill to the Board of County Commissioners for signature. The investment in the Harding Loevner, PIMCO and the EuroPacific Growth mutual funds may be made without specific documentation from the County.

MCC:mcc

1948193